

**OPPORTUNITIES  
FOR A  
PRIVATELY FINANCED  
PILOT PROJECT OPERATION  
OF  
AMTRAK RAIL PASSENGER SERVICE**

Testimony

before the

House Subcommittee on Railroads

By

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Thank you for the opportunity to provide testimony today regarding the potential role of the private sector to improve Amtrak's intercity rail passenger service. It is an honor and a privilege to participate in the debate about the future of our nation's rail passenger service.

My name is Paul H. Reistrup, Chairman Elect of Railway Service Corporation. RSC is a Delaware corporation headquartered in Wilmington, Delaware.

As some members of this committee know, my lifelong railroad career includes serving as Amtrak's second president from 1975 to 1978. During my tenure at Amtrak, train operations achieved an exemplary passenger safety record. Amtrak also acquired ownership of the Northeast Corridor, ordered new electric locomotives, Amfleet and Superliner cars which still serve, today, as the backbone of Amtrak's Northeast Corridor and long distance services.

Today, I would like to describe the unique capabilities of Railway Service Corporation to provide a solution for the difficult challenges facing today's Amtrak. Later, during any questions you may have, I hope to learn more about the concerns you have for providing rail passenger service to your constituents and our nation.

In my testimony today, I will:

- Discuss Railway Service Corporation's proposal to develop a privately financed pilot project operation of an existing Amtrak route
- The need to establish a Railway Infrastructure Trust Fund
- The goals of the pilot project
- Describe some of the private sector initiatives to achieve these goals and improve our nation's rail passenger service

Railway Service Corporation (RSC) is a Delaware corporation that was incorporated in October 1999 to develop private sector operation of rail passenger services. As early as January 9, 2002, we sent a letter to the Amtrak Reform Council indicating our interest to develop and implement private sector solutions to transform Amtrak into a commercially viable enterprise.

Since that time RSC has worked extensively to develop the team, business plans and all resources necessary to develop an innovative solution for Amtrak's long term success. The key element of RSC's solution for Amtrak is to create a new operating company, Amtrak Railroad Operations (ARRO) that is responsible only for the costs "above-the-rail." This new operating company would utilize the existing Amtrak employees and rail fleet with a business model that is responsible only for the costs "above-the-rail" of the crews, equipment maintenance, fuel, insurance, marketing and administration.

The new operating company will also utilize private capital to finance start-up costs and the capital costs of new locomotives and cars in order to develop a

commercially viable venture that will not require federal and state operating subsidies. In addition, the ARRO venture will pay users fees for the use of stations and tracks as well as dedicate a portion of passenger ticket revenues to the establishment of a railway infrastructure trust fund.

The goals of this initiative are to create a pilot project with the National Railroad Passenger Corporation (NRPC) to restructure Amtrak train services in order to:

- Improve and expand rail passenger service on a pilot project route
- Reform, restructure and revitalize Amtrak rail passenger service nationwide on a prioritized route by route rollout plan
- Provide private capital for the acquisition of new equipment
- Achieve long-term ridership growth that results in greater market share and commercial viability
- Develop state and federal support to create a railway infrastructure trust fund for rail infrastructure maintenance and improvements

This business strategy creates an operating company, ARRO, jointly owned by RSC and the National Railroad Passenger Corporation (NRPC). It allows the ARRO operating company to focus on developing commercially viable passenger train operations while NRPC continues with its responsibilities for infrastructure, facilities and other assets. It also insulates the ARRO operating company from the entrenched debt issues burdening NRPC and allows a debt restructuring process to be developed and implemented for NRPC. The ARRO, RSC, NRPC relationships and responsibilities are illustrated in Exhibits 1 and 2.

RSC is proposing to create the ARRO operating company as soon as possible to begin service as a pilot project on an existing Amtrak route serving the nation's heartland. The ARRO pilot project route can begin service in the Spring of 2006 using existing crews, trains and tracks. The result of this business model will be the creation of a business enterprise with improved utilization of crews, equipment and overhead.

Additionally, ARRO will initiate service, marketing, technology and organizational innovations to maximize financial performance. Some of these innovations include: expanded service frequencies, kids ride free promotions, ticketless travel and union employees who are in control of the goals of improved on-time performance and service quality.

To ensure the long-term commercial growth and success of this pilot project venture and other routes to follow nationwide, Railway Service Corporation proposes that the public sector, through creation of a Railway Infrastructure Trust Fund utilizing federal, state and local funding, provide the financing to upgrade and maintain the tracks, signals, station, grade crossings and other infrastructure components – similar to the administration of airport and highway infrastructure.

This public/private partnership will clearly define the responsibilities for rail infrastructure and train operating costs in the same public/private division of costs that exists in the aviation and highway transportation modes – the public sector finances, builds and maintains transportation infrastructure and the private

sector is responsible for operating costs, financing and maintaining vehicle assets as well as paying user fees and taxes to the infrastructure trust funds.

For its part in this public-private partnership, the ARRO operating company, operating as a private corporation, will pay track usage fees, station services fees and dedicate a percentage of its passenger ticket receipts to the railway trust fund.

While the debate before us regarding Amtrak's future presents a difficult challenge about developing a successful solution, most Americans will agree that we need good rail passenger service. No other form of transportation combines the speed, safety, comfort and convenience of passenger train travel. In addition, trains save energy, cut pollution and reduce the congestion plaguing our nation's air and highway networks. The strategic value of good rail service is further enhanced when you consider that trains are the only form of commercial transportation capable of operating independent of oil supplies.

Railway Service Corporation believes that rail service should be part of a strong transportation triad that includes highway, air as well as rail to provide for both defense transportation capacity and the safe and efficient mobility for civilians and commercial freight needed for strong economic growth. As we know, it will be extremely difficult due to environmental limitations to provide capacity for future economic growth by building more highways and airports. Therefore, our transportation needs would be best served by establishing a dedicated trust fund for the rail leg of a strong transportation triad to develop an

upgraded national rail network that is served by both freight and passenger trains.

As outlined in Exhibit 3, the purpose of creating a Railway Infrastructure Trust Fund for Interstate, Defense and Higher Speed Rail Transportation would be to:

- Upgrade and maintain separate high speed corridors for passenger trains operating at speeds greater than 110 MPH and national rail freight/passenger routes and designated Department of Defense rail routes for speeds up to 110 MPH
- Upgrade and maintain railway infrastructure components on designated routes including tracks, bridges, grade crossings, signals, stations, electrification and dispatching control centers
- Maintain national defense transportation capacity and passenger mobility during national emergencies using Amtrak and commuter rail cars for evacuation of cities and essential travel only

This would be achieved by:

- Providing, with 20% state/local match, funding to upgrade and maintain a national rail freight/passenger and defense transportation route system on a designated 35,000 mile route system
- Amtrak and commuter rail passenger operators would pay track user fees to the Railway Infrastructure and Defense Transportation Trust Fund
- Station Services fees would be paid by Amtrak and commuter rail passenger operators to the Railway Infrastructure and Defense Transportation Trust Fund
- A percentage of ticket revenues from Amtrak and commuter rail passengers would be paid to the trust fund

The ARRO venture will also be responsible for all costs “above the rail” that include operating costs for locomotives and railcars, fuel, crews, marketing, reservations, insurance and administration as well as the private capital for a new fleet of trains. NRPC will continue to own the current rail fleet and infrastructure assets of Amtrak. The ARRO venture will lease and maintain the existing NRPC locomotives and railcars required for the pilot project until acquiring its own

privately financed equipment. NRPC will continue to manage and maintain the facilities and tracks that it owns.

With agreement with NRPC, it is proposed that the ARRO venture develop the pilot project to test and modify the business model of the pilot route before implementing a rollout plan to transform additional Amtrak routes nationwide.

The ARRO Pilot Project would include:

- **A Spring 2006 service start-up using existing crews and trains**
- **A commitment to innovations in service, marketing, technology and organization**
- **Providing safe and reliable passenger train service**
- **A commitment to a union operation with existing Amtrak employees**
- **Increased daily service frequencies marketed as Amtrak**
- **Introduction of new equipment and innovative technologies**
- **A commitment of over \$20 million in private start- up financing**
- **Over \$100 million in private debt financing for new trainsets**
- **Provide contract/lease payments to NRPC for track and station user fees, security contracts, lease of NRPC facilities and lease payments for NRPC locomotives and cars**
- **Elimination of federal and state operating subsidies on the pilot project route in Year 1; train operating subsidies can be reallocated to infrastructure improvements**

RSC's proposed transformation of Amtrak's trains on a pilot project route into a commercially viable operation would include using current Amtrak operating employees at the existing pay rates and honoring all union agreements. These employees have valuable experience for the continued safe



and reliable operation of Amtrak trains. It is important for the passengers and the freight railroads that the continuity of this expertise be maintained. Railway Service Corporation is committed to maintaining a union operation of Amtrak. The future financial success of the ARRO operating company is not based on wage or job cuts but on a vision for service expansion and market innovation to provide service that is faster and more comfortable than driving. This will result in ridership growth and more union jobs.

Railway Service Corporation's goals for the ARRO Pilot Project would be to:

- **Operate more frequent service with improved route integration**
- **Operate the expanded service in a safe and reliable manner**
- **Provide service that is safer, faster and more comfortable than driving**
- **Operate profitably without public operating subsidies**
- **Introduce new equipment and technologies**
- **Double Amtrak's ridership on the pilot project route by the end of this decade**
- **Measure and monitor results of this pilot project for application to future route rollouts nationwide**
- **Expand the pilot project results to other Amtrak routes on a route-by-route rollout plan coordinated with the Railway Infrastructure Trust Fund improvements**

**The goals of the ARRO pilot project will be accomplished by implementing the following business strategies:**

- **Comprehensive transitional safety/security plan and continuous safety audits and assessments**

- Utilize the talent and experience of existing Amtrak personnel
- Implement innovations in service, marketing, technology and organization to maximize profit
- Improve the utilization of crews, equipment and overhead
- Reduce operating costs per seat-mile
- Provide rail service that is faster than driving with fares that compete with the out-of-pocket costs of driving
- “Top-of-Mind” marketing and affinity business relationships to promote rail passenger service

The RSC management team, with over 150 years of combined experience in all aspects of rail operations, including marketing, engineering and finance, believes that the proposed pilot project between NRPC and RSC is a timely opportunity.

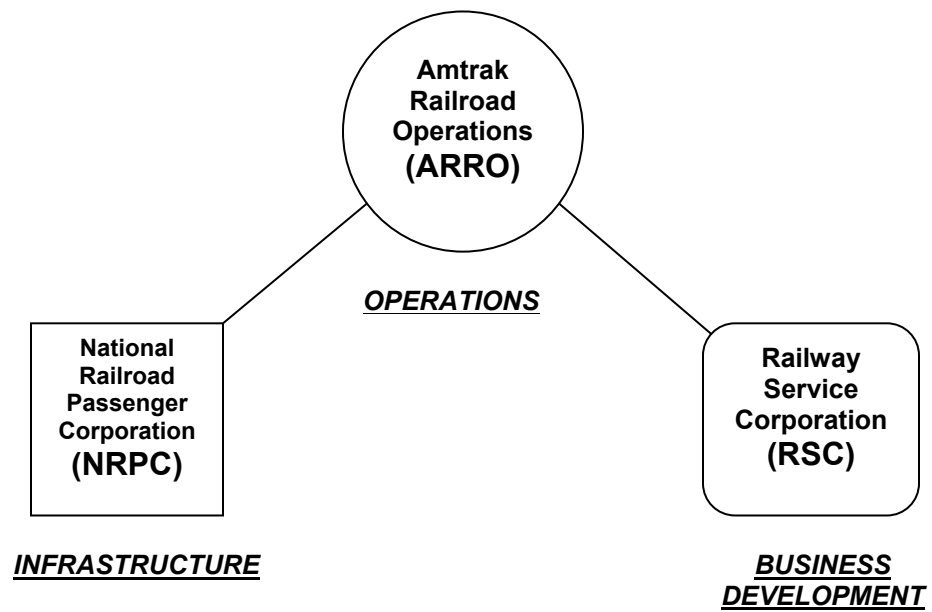
Railway Service Corporation’s ARRO Pilot Project represents a private sector solution to the challenges facing Amtrak. RSC is committed to improving Amtrak train operations to provide more frequent service, faster trains, new routes and new equipment to increase ridership and offer transportation that is vital to our nation’s mobility. This plan is structured to create a win-win opportunity for all parties concerned – Amtrak, its passengers, the Federal Government, the States, labor, the general public, freight railroads, as well as the investors in RSC.

This concludes my testimony today. Railway Service Corporation looks forward to learning more about the transportation needs of your constituents and hopefully, at the direction of Congress and The White House, to offer a private

sector solution that serves our great nation with faster, more frequent and more comfortable rail passenger service. I hope this testimony has been helpful for your discussions about Amtrak's future and I would be pleased to answer any and all questions that this committee may have. Thank you.

**EXHIBIT 1**

**ARRO COMPANY  
STRUCTURE AND RESPONSIBILITIES**



## **EXHIBIT 2**

### **ARRO PILOT PROJECT RESPONSIBILITIES FOR RAILWAY SERVICE CORPORATION (RSC) AND NATIONAL RAILROAD PASSENGER CORPORATION (NRPC)**

#### **RSC's ARRO pilot project responsibilities include:**

- Operating plan for the ARRO Pilot Project
- Arrange \$23.3 million in equity financing for the ARRO venture start-up
- Arrange over \$100 million in private debt financing for new locomotives and passenger cars
- Marketing Plan development and implementation
- Develop and implement innovations in service, marketing, technology and organization
- Provide management support for ARRO pilot project operations
- Develop and manage Service Quality Program
- Develop and manage innovations in service, technology, marketing and organization
- Create support for the Railway Infrastructure Trust Fund

#### **NRPC's ARRO pilot project responsibilities include:**

- Lease NRPC locomotives and rolling stock to the new Amtrak Railroad Operations pilot project until replaced by new equipment
- Lease designated NRPC yard & shop facilities, offices to the ARRO venture
- Provide operating personnel and managers needed to be contracted by the Amtrak operating company to operate and maintain locomotives and cars
- NRPC employees will continue to maintain NRPC infrastructure (tracks, buildings, bridges, stations, and signals)
- NRPC employees will continue to dispatch and control the NRPC facilities
- Operating agreements for access to freight railroads
- Access to NRPC yard & shop facilities, NRPC owned track and stations
- NRPC will provide police and security functions under contract to the new Amtrak operating company

### EXHIBIT 3

**PROPOSED ELEMENTS  
OF A  
RAILWAY INFRASTRUCTURE TRUST FUND  
FOR HIGH SPEED RAIL, DEFENSE AND INTERSTATE ROUTES**

<b>Rail Network to be Upgraded and Maintained:</b>	Designated HSR Corridors and 35,000 miles of rail lines serving both passenger and freight; designated DoD rail routes
<b>Maximum Operating Speeds</b>	110mph; greater than 110mph for dedicated HSR passenger routes
<b>Track Capacity</b>	Double track for HSR corridors; add tracks for Interstate Routes
<b>Grade Crossings</b>	None on HSR routes; eliminate/maintain existing crossings
<b>Signals and Traffic Control</b>	Upgrade and maintain to provide higher speeds/more capacity
<b>Bridges and Tunnels</b>	Improve security, capacity & speeds
<b>Stations</b>	Improve and Maintain
<b>Federal/State/Local Funding</b>	Trust Fund requires 20% local match
<b>Funding Sources from Amtrak, HSR and Commuter Rail Operators</b>	Track User Fees; Station Services Fees
<b>Funding Sources from Passengers</b>	Percentage of ticket revenues